



April 24, 2006

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: Supervisory Committee Audits
71 FR 9278 (February 23, 2006)

Dear Ms. Rupp:

America's Community Bankers (ACB)¹ appreciates this opportunity to comment on the National Credit Union Administration's (NCUA) advance notice of proposed rulemaking regarding credit union corporate governance matters.² The NCUA has requested comment on four specific issues:

- Whether credit unions should be required to obtain an attestation on internal controls in connection with their annual audits;
- What standards should govern the assessment and attestation components of such an engagement;
- What qualifications should be required as prerequisites to serve on a supervisory committee; and
- What standard should dictate the degree of independence required of state-licensed, compensated auditors.

ACB Position

ACB supports the NCUA's adoption of corporate governance requirements that are similar to Federal Deposit Insurance Corporation (FDIC) regulations that apply to banks and savings associations that are privately held or mutually organized. Large credit unions should be required to obtain an attestation on internal controls in connection with their annual audits, which is consistent with safety and soundness. This attestation

¹ America's Community Bankers is the national trade association committed to shaping the future of banking by being the innovative industry leader strengthening the competitive position of community banks. To learn more about ACB, visit www.AmericasCommunityBankers.com.

² 71 Fed. Reg. 9278 (Feb. 23, 2006).

should adhere to the same auditing standards as private and mutual banks and savings associations. In addition, the NCUA should adopt supervisory committee requirements that parallel audit committee requirements for banks and savings associations.

Background

Attestation Requirements. All types of federally insured depository institutions with \$1 billion or more in assets, except credit unions, are required to obtain an attestation on internal controls. The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) and Part 363 of the FDIC regulations require insured depository institutions to submit annual management assessments of their internal control structure and obtain attestations of those assessments from their independent external auditor.³ FDIC regulations indicate that attestations should be made in accordance with generally accepted standards for attestation engagements.

Audit Committee Requirements. The audit committee of a bank or savings association is analogous to a credit union supervisory committee. FDIC regulations establish minimum requirements regarding the independence and expertise of audit committee members. The NCUA does not have similar requirements for members of a supervisory committee.

Explanation of ACB Position

ACB recommends that the NCUA adopt corporate governance regulations that are analogous to the attestation obligations and audit committee requirements of banks and savings associations. Such requirements would 1) strengthen NCUA oversight of the credit union industry and 2) ensure regulatory parity between credit unions, banks and savings associations and 3) improve the safety and soundness of large institutions.

During the past decade, the credit union industry has grown and matured. Large credit unions have evolved into sophisticated depository institutions. The products and services they provide and the investments that they make have become increasingly complex. Furthermore, the majority of credit union industry assets are held by a small number of large credit unions. Based on data from the December 2005 Call Report, credit unions with over \$1 billion in assets represented just over one percent of all credit unions and more than one-third of total credit union assets.

It is important that credit union regulatory requirements reflect the changes in the credit union industry. Due to the concentration of credit union assets in large credit unions, the NCUA needs to have a thorough understanding of a credit union's internal controls. We believe that requiring management and external auditors to report on the internal control structure and procedures would help the NCUA better ensure the safety and soundness of the credit union industry.

³ 12 U.S.C. §1831m and 12 C.F.R. Part 363.

Because many issues remain unresolved regarding attestation requirements that apply to banks and savings associations, ACB urges the NCUA to work with the FDIC, the PCAOB, and the AICPA to ensure that any internal control attestation standards are consistent with the rules that will ultimately be adopted for banks and savings associations.

In addition to improving regulatory oversight, applying FDICIA-like requirements to large credit unions would align the NCUA's regulations with the corporate governance rules that apply to all other insured depositories. Credit unions are the only type of federally insured depository institution not subject to an internal control attestation requirement or an audit committee qualification requirement. Requiring certain credit unions to comply with such requirements would be one step toward ensuring that similarly situated financial institutions are subject to comparable laws and regulation.

Conclusion

Thank you for the opportunity to comment on this matter. Should you have any questions, please contact the undersigned at 202-857-3187 or via email at kshonk@acbankers.org or Jodie Goff at 202-857-3158 or via email at jgoff@acbankers.org.

Sincerely,

A handwritten signature in cursive script, reading "Krista Shonk".

Krista J. Shonk
Regulatory Counsel